

E-002/M-89-795 APPROVING TARIFF

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Darrel L. Peterson	Chair
Cynthia A. Kitlinski	Commissioner
Norma McKanna	Commissioner
Robert J. O'Keefe	Commissioner
Patrice Vick	Commissioner

In the Matter of Northern States Power  
Company's Proposed Area Development  
Rider

ISSUE DATE: June 28, 1990

DOCKET NO. E-002/M-89-795

ORDER APPROVING TARIFF

PROCEDURAL HISTORY

On September 18, 1989, Northern States Power Company (NSP or the Company) filed a proposal for an Area Development Rider (ADR). On December 28, 1989, NSP filed a modified version of the ADR.

On April 4, 1990, after deliberations concerning the NSP proposal, the Commission filed its ORDER SUSPENDING PROPOSED TARIFF in the present docket. In that Order, the Commission expressed its desire to wait for forthcoming ADR legislation before deciding on NSP's petition. On March 29, 1990, after the Commission deliberations but before the April 4 Order was issued, the awaited ADR legislation was passed into law as Minn. Stat. §216B.161 (1990).

On April 18, 1990, NSP submitted a revised ADR petition intended to conform to the new statute.

On May 9, 1990, the Department of Public Service (the Department), the Office of Attorney General-Residential Utilities Division (OAG-RUD), and the Minneapolis Community Development Agency filed comments regarding NSP's modified proposal.

On May 16, 1990, NSP and OAG-RUD filed reply comments.

On May 24, 1990, the Commission issued its ORDER RESUMING CONSIDERATION OF PROPOSED TARIFF AND CONTINUING SUSPENSION in the current docket. In that Order the Commission resumed deliberations on the NSP proposal, while continuing to suspend the Company's proposed tariffs pending a final decision.

The matter came before the Commission on June 13, 1990.

## FINDINGS AND CONCLUSIONS

### **Should the Commission Approve NSP's Proposed ADR?**

NSP's proposed ADR would be a two year pilot program under which NSP would allow a discount on certain customers' demand charges for a period of five years. Targeted customers would be in the manufacturing or wholesale class of trade, and would be located in four specified "Area Development Zones" within St. Paul and Minneapolis.

In the new ADR law, the legislature mandated the Commission to order at least one public utility to establish a pilot program that offers an area development rate. The legislature's intent, as expressed in the statute, is to assist industrial revitalization. The Commission finds that NSP's proposed ADR carries out the spirit and the specific requirements of Minnesota's new ADR statute. Commission staff has also done an informal poll of other utilities and found that there are no other ADR proposals being prepared at this time. It is logical and fitting that the Commission approve NSP's proposed ADR. The Commission will so approve it.

### **Incremental Cost Studies**

Minn. Stat. §216B.161, the new ADR statute, requires that any ADR plan must be designed to recover at least the incremental cost of providing service to the participating customers. A properly structured ADR program, in which incremental costs are at least recovered, will stimulate redevelopment of economically depressed areas without harming ratepayers who are not participants in the program. The Commission agrees with the Department that it is extremely important that incremental cost recovery be monitored. The Commission will adopt the Department's recommendation that NSP file incremental cost information on an annual basis.

### **Evaluation Criteria and Filing Requirements**

The new ADR statute requires the Commission to evaluate the effectiveness of any ADR which is implemented. Within 60 days of the expiration of any plan, the Commission must determine if the area development rate should be continued, modified, or eliminated. The Commission must share its evaluation with the legislature by January 1, 1995.

The Department has recommended the following specific evaluation criteria to assist the Commission in its evaluation report:

1. The effect of the program on the utility's capacity situation.
2. The effect of the program on the utility's fuel procurement.
3. The effect of the program on rates to all other ratepayers.
4. The success of the program in attracting industry to the designated areas.
5. The success of the program in assisting local development efforts.
6. The effect of the program on competing businesses not receiving the rate discount.
7. The effect of the program on other communities not eligible for the rate discount.
8. Whether the new load growth is energy-efficient.

In addition, the Department has recommended that the Commission require any utility submitting an ADR plan to submit the following filing requirements:

1. A list of customers located within the Area Development Zone.
2. A list of customers taking service under the rate. For each customer, the utility should provide a description of the type of business, the amount of load taken under the rate, the total load consumed, the rate charged during the period, and the number of years the business has taken service under the rate.
3. A list of all businesses that either went out of business or relocated despite the offering of the Area Development Rider.
4. The difference in annual revenues from the Area Development Rider compared to revenues that would have been collected had the customer been charged the standard applicable rate.
5. For each customer, the Commercial and Industrial CIP programs, if any, the customer is participating in, and/or other conservation or load management actions the customer has undertaken.

The Commission agrees with the Department that these filing requirements will be very helpful in evaluating NSP's area development rates. Due to the relatively short term of the pilot program, however, the Commission will require the above filing requirements to be submitted on an annual basis rather than the semiannual basis recommended by the Department.

NSP also submitted proposed filing requirements for its ADR. While many of the Company's proposed requirements are the same or nearly the same as those recommended by the Department, there are five filing requirements proposed by NSP which were not duplicative of Department recommendations. Although the Department did not propose these requirements, it is not opposed to them. The five requirements are:

1. Previous location of the business.
2. Capital investment made.
3. Size of firm before and after location/expansion.
4. Total number of jobs created.
5. Increase in tax base/revenues.

The Commission finds that the above five filing requirements, when utilized with the evaluative criteria/filing requirements recommended by the Department, will greatly assist the Commission in evaluating the ADR proposal. The criteria/filing requirements listed above will help ensure that the ADR serves the purpose of stimulating economic development without harming other ratepayers.

### ORDER

1. Northern States Power Company's Area Development Rider filed on April 18, 1990 is hereby approved.
2. On or before one year from the date of this Order, Northern States Power Company shall file incremental cost information regarding its Area Development Rider, and shall continue to file this information on an annual basis.
3. On or before one year from the date of this Order, Northern States Power Company shall file a report including but not limited to the five filing requirements proposed by the Department and the five filing requirements proposed by the Company listed above, and shall continue henceforth to file a report on an annual basis.

To the extent possible, the annual reports shall address the evaluation criteria listed above, which the Commission will utilize in its final evaluation.

4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster  
Executive Secretary

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